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FISCAL IMPACT STATEMENT

LS 7562 **NOTE PREPARED:** Feb 11, 2009
BILL NUMBER: SB 561 **BILL AMENDED:** Feb 10, 2009

SUBJECT: Property tax matters.

FIRST AUTHOR: Sen. Hershman **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: *(Amended) Cyclical Reassessment:* This bill deletes the statute requiring a general reassessment to begin in 2009. It requires the county assessor of each county to prepare and submit to the Department of Local Government Finance (DLGF) a reassessment plan for the county. The bill specifies that the reassessment plan is subject to approval by the DLGF.

This bill provides that the reassessment plan must divide all parcels of real property in the county into different groups of parcels. It requires that each group of parcels must contain at least 20% of the parcels within each class of real property in the county and specifies that the DLGF shall determine the classes of real property to be used. The bill requires that the number of parcels of real property included in each group within a particular group must be approximately equal and provides that all real property in each group of parcels shall be reassessed under the county's reassessment plan once during each cycle. The bill specifies that the reassessment of a group of parcels in a particular class of real property shall begin on July 1 of a year. It provides that the reassessment of the first group of parcels under a county's reassessment plan shall begin on July 1, 2010, and shall be completed on or before March 1, 2011. The bill also makes conforming amendments to recognize the reassessment under the reassessment plan.

Land Values: The bill provides that the county assessor determines the values of all classes of land in the county. The bill also provides that a petition for the review of the land values determined by the county assessor may be filed with the DLGF and it requires the petition to be signed by at least the lesser of: (1) 100 property owners in the county; or (2) 5% of the property owners in the county.

Trending Catch-Up: This bill provides that if a county is more than 12 months behind in submitting certified net assessed valuations to the DLGF, the county shall have a trending factor based on property class, and location, developed and applied to the assessed values of properties within the county. It requires the DLGF to develop the trending factors and specifies that the trending factor shall be applied to expedite the property assessment to the property tax billing cycle so that the county may achieve current and regular assessments and billing.

Reassessment Petitions: The bill provides that a petition for reassessment of a group of parcels must be signed by not less than 100 real property owners or 5% of real property owners and must be filed with the DLGF not later than 45 days after notice of assessment is provided.

Lease/Rentals: This bill provides that the maximum term or repayment period for obligations issued after June 30, 2009, that are wholly or partially payable from lease rental payments is 20 years after the date of the first lease rental payment.

Software Contracts: The bill requires the DLGF to be a party to any addendum to a contract: (1) between a county assessor and a professional appraiser; and (2) between a county and providers of assessment software.

Taxpayer Notices: This bill provides that if an assessing official assesses or reassesses any real property, a tax statement or, if applicable, a reconciling property tax statement is notice to the taxpayer of the amount of the assessment or reassessment. For real property with new additions or improvements since the previous assessment date, the bill requires a separate notice to be provided within 90 days after the assessor completes the appraisal of a parcel or receives a report for a parcel from a professional appraiser. The bill also eliminates a taxpayer notice of assessed value and estimated taxes that would have been required in September each year beginning in 2010.

Utility Assessments: The bill provides that a public utility company's tangible personal property that is locally assessed as fixed property is instead assessed as distributable property.

Sales Disclosure: This bill exempts public utility and governmental easement documents from the property sale disclosure filing requirement. It authorizes the DLGF to use money in the Assessment Training and Administration Fund for data base management expenses.

Assessment Appeals: The bill eliminates the authority of a county assessor to appeal an assessment of industrial property by the DLGF.

Local Budgets - Nonelected Boards: This bill provides that in the case of a taxing unit that is governed by a nonelected board and is required to submit its proposed budget and property tax levy to a municipal fiscal body for approval, the proposed budget and property tax levy must be submitted at least 30 days (rather than 14 days, under current law) before the municipal fiscal body is required to hold budget approval hearings. It changes the date for political subdivisions to complete budgets from August 10 to September 10.

Local Budgets - County Review: The bill requires a civil taxing unit to provide the county fiscal body with its proposed budget, tax rate, and levy at least 45 days, instead of 15 days, before it fixes its rate (30 days instead of 14 days for nonelected units) and provides that a civil taxing unit's preceding year levy is used if the deadline is not met. The bill gives the county fiscal body (or oversight unit for nonelected units) 30 days to complete its review and provides that a county's preceding year levy is used if the deadline is not met.

The bill moves the deadline for local budget meetings from September 30 to November 1. It requires the county board of tax adjustment to complete its work before November 2, instead of October 1, in most counties. The bill provides that in Marion County and counties with second class cities the board must complete its work by December 1 instead of November 1. The bill also changes the deadline for a civil taxing unit to appeal its levy limit from September 20 to October 20.

Control Boards: The bill eliminates the Local Government Tax Control Board and the School Property Tax Control Board.

Tax Bills: This bill eliminates the State Board of Accounts approval of the property tax statement. It removes the tax rate and percentage change in liability from the property tax statement and eliminates expiring provisions.

The bill provides that in the case of property taxes billed under a provisional tax statement: (1) the first installment is due on the later of May 10 of the year following the year of the assessment date or 30 days after the mailing of the provisional tax statement; and (2) the second installment is due on the later of November 10 of the year following the year of the assessment date or a date determined by the county treasurer that is not later than December 31 of the year following the year of the assessment date.

It requires provisional tax statements and reconciling tax statements to be on forms prescribed by the DLGF. The bill provides that the tax liability under a provisional tax statement may be up to 100% of the tax liability that was payable in the same year as the assessment date for the property for which the provisional tax statement is issued. It also requires a provisional tax statement to include any adjustments to the tax liability as prescribed by the DLGF.

PTABOA: This bill provides that the county assessor is a nonvoting member of the property tax assessment board of appeals (PTABOA). It provides that the county commissioners make three (rather than two) appointments to the PTABOA.

SARS: The bill specifies that the provisions requiring the calculation and use of school assessment ratios and adjustment factors apply only to school corporations in counties in which a supplemental county levy is imposed and repeals a provision requiring the calculation of a state average assessment ratio.

Conservancies: This bill provides that the board of a conservancy district may, subject to any required budget review and approval, increase the conservancy district's budget by not more than 10% for contingencies. (Current law requires the budget to be increased by 10% for contingencies.)

Public Work Project Financing: The bill provides that under the statute authorizing political subdivisions to borrow from a financial institution to finance a public work project, the maximum term of the loan is ten years (rather than six years, under current law).

Exemption: This bill provides a school in Marion County additional time to file for a property tax exemption for taxes payable in 2007, 2008, and 2009. It provides for a refund of taxes paid for 2007 and 2008.

Over 65 Homeowner Deduction: The bill allows a taxpayer to claim the deduction for senior homeowners while also claiming several other deductions.

Expired Statutes: This bill also eliminates expired maximum property tax levy appeals.

Effective Date: March 1, 2009 (retroactive); Upon passage; July 1, 2009; January 1, 2010.

Explanation of State Expenditures: *Cyclical Reassessments:* The DLGF would most likely need to provide cost table updates each year. According to the DLGF, the Department already subscribes to annual updates from the service that provides the cost data. The DLGF reports that they might need up to two additional staff statisticians in order to administer the cyclical reassessments. The total cost for salary, fringe, and indirect costs for two new employees at a salary of $60,000 is estimated at $167,000 per year.

The funds and resources required above could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

Trending Catch-Up: Under this provision, the DLGF would develop trending factors for a county that is more than one year late in certifying net assessed value to the DLGF. This provision would currently affect LaPorte and Marion counties. The DLGF would use current resources and data to compute these factors.

Sales Disclosure: Under current law, the DLGF receives $5 from the filing of each sales disclosure form. In FY 2008, the DLGF received $864,950 which was deposited into the state Assessment Training and Administration Fund. Money in the fund may be used:

(1) by the DLGF to pay the expenses for development and administration of training programs for assessment officials and DLGF employees; and

(2) by the Indiana Board of Tax Review to conduct appeal activities or pay for appeal services.

Under the bill, the DLGF could use the proceeds for database management expenses in addition to the current uses.

Software Contracts: Under current law, the DLGF must be a party to any contract between a county assessor and a professional appraiser or providers of assessment software. This provision clarifies that this requirement also applies to contract addendums. This allows the DLGF to play a role in the enforcement of these contracts.

Control Boards: This proposal eliminates both the School Property Tax Control Board and the Local Government Property Tax Control Board. The School Control Board is comprised of five voting members plus two ex officio, nonvoting members. The Local Control Board is comprised of seven voting members plus two ex officio, nonvoting members. The school control board scheduled 12 meetings in 2008 while the local control board scheduled 13 meetings. All members of the control boards receive mileage reimbursement and members who are not state employees receive a salary per diem. These expenses, which are paid from the state General Fund, would be eliminated under this bill.

Petitions regarding budgets for new taxing units, excessive levy appeals, debt issues, and any other items that currently come before the control boards would be made directly to the DLGF.

Tax Bills - TS-1: The form of the property tax billing statement is currently prescribed by the DLGF but must also be approved by the State Board of Accounts. This bill would eliminate the requirement for Board of Accounts approval, allowing the Board to direct those resources elsewhere.

The bill also changes the required content of the tax billing statement. Among other things, the statement, called a TS-1, must currently list each taxing unit's tax rate and the liability owed to each unit for the prior and current year. The TS-1 also shows the year-to-year tax bill change in dollars for each taxing unit, and the percentage of the total change in the tax bill that is attributed to each taxing unit. This bill would remove the requirement to report the unit tax rates and the percentage of the total change. The list of prior and current tax liabilities to each taxing unit would remain intact. The DLGF would have to redesign the TS-1 form to remove the rates and percentage.

SARS: Under current law, the DLGF must compute a school assessment ratio study (SARS) each year in which a general reassessment occurs and in other years if the DLGF determines that there are sufficient assessment changes to warrant one. The study must include a new assessment ratio for each school corporation and a new state average assessment ratio. The ratio is an assessment of whether, and to what extent, real property within a school district has been assessed according to the assessment laws and rules.

Under this bill, the SARS would be required only for school corporations in counties that impose a supplemental county levy for schools. These school corporations are in Lake and Dearborn counties. The state average ratio would no longer be required.

The SARS ratios had been used in determining property tax levies for school corporation general funds and are referenced in the statute concerning the county supplemental distributions. Since the school general fund levy has been eliminated, there is no need to compute these ratios in most counties. This provision would allow the DLGF to redirect resources that would have been used to complete a new SARS.

Explanation of State Revenues: *Sales Disclosure:* Under the bill, public utility and governmental easement transfers would be added to the list of property transfers that do not have to be reported on a sales disclosure form. Revenue from sales disclosure filings would be reduced by the amount currently received from this type of transfer. The number of these transfers is not currently available.

Explanation of Local Expenditures: *Cyclical Reassessments:* Under a cyclical reassessment schedule, expenditures for reassessment in a county would be spread from a two-year period to a period of up to five years.

Trending Catch-Up: This provision would likely allow those counties that currently struggle to complete annual adjustments to catch up and complete their assessment work on time. Timely assessments would encourage on-time property tax billings and could reduce the need for short-term borrowing.

Lease/Rentals: Under current law, most obligations issued after June 30, 2008 must be repaid within 20 years after the obligation is issued. Under this bill, obligations issued after June 30, 2009 that are payable through a lease rental would have to be repaid within 20 years after the first lease payment is made. Lease payments do not begin until the taxing unit takes possession of the project which is typically one or two years after the project is started and the obligation is actually issued. This bill would give taxing units a full twenty years after payments begin to repay all of a lease rental obligation.

Reassessment - Petition: Currently, a group of taxpayers may petition the DLGF to reassess real property within a township. The petition must be filed by March 31st of a year without a general election and without a general reassessment. The minimum number of petitioners necessary varies depending on whether the township contains a municipality and depending on the population of the municipality.

Under this provision, a group of taxpayers may petition the DLGF to reassess real property within a reassessment property group. The petition could be filed up to 45 days after a notice of assessment in any year. The petition must be signed by the lesser of (1) 100 real property owners or (2) 5% of the real property owners of the parcels in the group. The DLGF could order a reassessment or conduct one themselves.

This provision could make it easier to file a petition to reassess. The county could incur additional costs if the DLGF finds cause to order a reassessment.

Reassessment - Land Values: Currently, the township assessor, or county assessor if there is no township assessor, must set the initial land values and then submit them to the county PTABOA for review. Under the bill, the county assessor would determine all land values. The PTABOA would no longer have a review function, eliminating the cost of the public hearings that they currently must hold.

The bill would, however, allow a group of taxpayers to petition the DLGF for a review of the county assessor's land values. The petition could be filed up to 45 days after the values are determined and must be signed by the lesser of (1) 100 real property owners or (2) 5% of the real property owners in the county. The DLGF would be required to review the land values upon petition.

Taxpayer Notices - Assessment: Under current law, local assessing officials must send an assessment notice to real property owners each time property is assessed or reassessed. Statewide, the cost to prepare and mail approximately 3.5 M property assessment notices is estimated at $1.8 M to $2.1 M assuming a $0.50 - $0.60 per piece cost. This bill would eliminate the separate assessment notice and instead rely on the property tax bill to serve as the assessment notice. Counties would save the cost of providing the separate assessment notices under this bill. The separate assessment notice would, however, still be required any time real property with new additions or improvements is assessed.

Taxpayer Notices - Estimated Tax: Under current law, beginning in 2010, the county auditor must mail to each taxpayer a statement containing certain information pertaining to property taxes for the following year including: the taxpayer's AV, deductions, and credits; the estimated taxes that will be due from the taxpayer for each taxing unit; the corresponding tax liabilities for the current year; information on public hearings on the levies, tax rates, and budgets; and the opportunity to appeal the taxpayer's assessment. About 3.5 M taxpayer notices must be prepared and mailed. The cost is estimated at $1.8 M to $2.1 M based on a $0.50 - $0.60 per item cost. Counties will also incur initial software costs to create the notices.

Under this proposal, counties would not have to provide these notices and would not have to pay the expenses of development, preparation, and delivery.

Utility Assessments: Under current law, utility-owned personal property that is not a part of production, transmission, or distribution systems comprises about 0.2% of total utility personal property AV. For reporting purposes, the value is subtracted from total utility value on the state utility assessment form (UD-45) and then reported to the local assessor (Form-1.) Under this provision, the property would not be reported separately on Form-1. Instead the property AV would be the reported on the UD-45 and distributed by taxing district along with the rest of the utility distributable property. This could cause a very slight change in share of the total utility AV that is attributed to each taxing district, although the total for each utility would remain unchanged.

Local Budgets - Adoption Deadlines: Currently, civil taxing units and school corporations must complete estimates of the upcoming year's budget, levy, and tax rate by August 10th. After a public hearing, the budget, levy, and tax rate must be adopted by September 30th. In a county with a county board of tax adjustment, the board must review the each budget, tax rate, and tax levy and may revise or reduce, but not increase, the budget, tax rate, or tax levy. The board must complete its review by October 1st, or November 1st in Marion County and in a county containing a second class city.

Under this provision, civil units and schools would have until September 10th to complete their budget, levy, and rate estimates. The adoption deadline would be moved to November 1st. The deadline for the county board of tax adjustment to complete its review would be November 1st, or December 1st for Marion County and in a county containing a second class city. The later adoption dates could allow the use of more up to date assessment data in calculating the estimates.

Tax Bills - TS-1: The proposed changes to the TS-1 would require software changes to rearrange the remaining reportable items in the manner required by the DLGF. There would be some additional county costs associated with this change. The amount is not currently known.

PTABOA: Under current law, the county PTABOA has 5 voting members. Two members are appointed by the county fiscal body and two are appointed by the county commissioners. The county assessor is the fifth member.

Under this bill, the county assessor would be a nonvoting member of the board. The county commissioners would appoint one additional member to the board. The board would then be comprised of five voting and one nonvoting member. PTABOA members receive a per diem salary set by the county council. The addition of one member could increase county costs by 20%.

Public Work Project Financing: Currently, a civil taxing unit or school corporation may borrow money from a financial institution for a term of up to six years to fund a public work project that costs no more than $2M. This bill would allow the term to be as long as ten years. If a loan is taken for more than six years, overall interest payments would increase, but each annual payment would be reduced.

<u>Explanation of Local Revenues:</u> *Cyclical Reassessments:* Under current law, real property is fully reassessed every five years. The next general reassessment takes effect with taxes payable in 2012. Annual adjustments to real property values are applied each year in which a general reassessment does not take effect.

Under this bill, counties would submit a reassessment plan to the DLGF by December 31, 2009. The plan must divide the parcels in the county into five groups that contain approximately 20% of the parcels in each property class. Beginning with March 1, 2011, each county would reassess one group each year rather than conduct a general reassessment once every five years. However, a county could submit a plan to reassess more than 20% (up to 100%) of the parcels in any one year. Parcels that are not reassessed in a year would still be subject to annual adjustments.

Assuming that all property is currently assessed in accordance with the assessment and trending rules, general reassessments under current law should result in only modest one-year changes to most assessments. The general reassessment also picks up physical changes in property not previously noted. The change to cyclical reassessments would have the same overall effect. Since annual adjustments would continue for non-reassessed property, there should be no discernable change in overall assessment levels.

Over 65 Homeowner Deduction: Under current law, homeowners who qualify for the senior deduction may not receive any other deductions except for the mortgage deduction and the traditional standard deduction. The new supplemental homestead standard deduction is automatically granted to any homeowner that receives the traditional standard deduction. This bill clarifies that senior taxpayers may receive both the over 65 deduction and the supplemental standard deduction. In addition, the bill would allow the senior deduction in addition to the solar power, wind power, hydroelectric power, and geothermal energy system deductions. The over 65 deduction is a maximum of $12,480 per senior home. Statewide, there are approximately 116,000 deductions totaling $1.4 B M in AV.

Local Budgets - County Review: Under current law, civil taxing units in a county without a board of tax adjustment must submit their estimated budget, levy, and tax rate to the county fiscal body for review at least 15 days before the unit adopts the budget. The county fiscal body must perform a review and must issue a non-binding recommendation regarding the proposal.

Under this bill, the taxing units would be required to submit their proposal to the county fiscal body at least 45 days before the unit adopts the budget. The county fiscal body would be required to issue the non-binding recommendation at least 15 days before the unit adopts the budget.

If a taxing unit fails to timely file the budget, levy, and tax rate estimates with the county, then the taxing unit's prior year budget and levy would be continued for the current year under the bill. Likewise, if the county fiscal body fails to make its recommendation on a timely basis to any civil taxing unit, then the county unit's prior year budget and levy would be continued for the current year.

Local Budgets - Review of Non-Elected Board Budget: Under current law, a civil taxing unit with a non-elected governing body must submit its proposed budget and property tax levy for approval by the county fiscal body or municipal fiscal body if the percentage increase in the proposed budget is greater than the assessed value growth quotient. The taxing unit must submit the proposal at least 14 days before the reviewing body holds budget approval hearings. Under this bill, the taxing unit would be required to submit their proposal to the county or municipality at least 30 days before the reviewing body's hearing.

If a taxing unit fails to timely file the budget, levy, and tax rate estimates with the county or municipal fiscal body then the taxing unit's prior year budget and levy would be continued for the current year under the bill. Likewise, if the reviewing fiscal body fails to make its recommendation before the deadline for budget adoptions, then the reviewing unit's prior year budget and levy would be continued for the current year.

Tax Bills - Provisional: Under current law, a county may elect to send out provisional tax statements to its taxpayers if the county abstract is not completed by March 15th of the tax payment year. The abstract is prepared when tax rates are certified and tax bills are figured. Provisional bills are based on 90% of the previous year's taxes. The first installment is due on May 10th unless the notice of reassessment or trended assessment is sent after March 26th, in which case the payment is due 45 days after the tax billing statement is mailed. The second installment is due on November 10th unless the May due date was delayed, in which case the November due date may be moved to any date through December 31st.

Under this proposal, the provisional bills would be based on 100% of the previous taxes and would include adjustments as prescribed by the DLGF. Other parts of this bill eliminate the requirement to send assessment and reassessment notices. Under this provision, the first provisional installment would be due on the later of May 10th or 30 days after the bill is mailed. The second installment would be due between November 10th and December 31st, inclusive, at the county treasurer's discretion.

Conservancies: Under current law, a conservancy district's estimated budget must include an amount for contingencies equal to 10% of the budgeted expenses. Conservancy district budgets are subject to review by the county board of tax adjustment and the DLGF.

Under this bill, the contingency amount would be subject to budget review and approval and would be limited to 10% of expenses rather than being equal to 10%. There were 67 conservancy districts in 46 counties that had an appropriation in 2008 (2007 for two counties). Total appropriations were $27.5 M and the special benefits tax amount was $13.3 M. This provision could reduce conservancy district appropriations and tax by up to 10% of these amounts.

Effect on Circuit Breakers: Any provision that affects local property tax levies, assessments, deductions, or credits may have an effect on the local cost of circuit breaker credits. If, on the whole, the changes result in higher net tax amounts, then the cost of the circuit breaker credits will rise. If net tax is reduced, then the cost of the circuit breaker credits will also fall.

Exemption: Under this provision, a Marion County non-profit, private school would be able to retroactively file for property tax exemptions on donated property for taxes payable in 2007, 2008, and 2009. To qualify, the school must have been in existence for at least 45 years, the property had to have been exempt for taxes assessed in 2005 (before the donation), and the property would have otherwise qualified for an exemption. The annual taxes on the property are about $46,000 per year. With penalties and interest, the owner is liable for a total of about $150,000 for the three years. This bill would cancel the liability and reduce collectable property taxes by the same amount in those three years.

State Agencies Affected: Department of Local Government Finance; Local Government Property Tax Control Board; School Property Tax Control Board; State Board of Accounts.

Local Agencies Affected: Township and county assessors; County auditors; County treasurers; County boards of property tax assessment; County tax adjustment boards; Civil taxing units; School corporations; and Conservancy districts.

Information Sources: Local Government Database.

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